

**REPORT OF THE AUDIT OF THE
LAUREL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAUREL COUNTY SHERIFF

For The Year Ended
December 31, 2003

The Auditor of Public Accounts has completed the Laurel County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$15,048 from the prior year, resulting in excess fees of \$11,443 as of December 31, 2003. Revenues increased by \$174,524 from the prior year and expenditures increased by \$189,572.

Debt Obligations:

Capital lease principal agreements totaled \$123,286 as of December 31, 2003. Future principal and interest payments of \$142,630 are needed to meet these obligations.

Report Comments:

- The Sheriff Should Not Have A Deficit In His Official Bank Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Laurel County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting described in Note 1.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 21, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Not Have A Deficit In His Official Bank Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Laurel County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2006

LAUREL COUNTY
 GENE HOLLON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Grants		\$	90,792
State - Kentucky Law Enforcement Foundation Program Fund			70,598
State Fees For Services:			
Finance and Administration Cabinet	\$	38,037	
Cabinet For Human Resources		16,439	
Sheriff Security Service		67,403	
Other		<u>3,654</u>	125,533
Circuit Court Clerk:			
Fines/Fees Collected	\$	3,575	
Court Ordered Payments		<u>6,924</u>	10,499
Fiscal Court			633,161
County Clerk - Delinquent Taxes			10,505
Commission On Taxes Collected			473,099
Fees Collected For Services:			
Auto Inspections	\$	28,899	
Accident and Police Reports		1,990	
Serving Papers		89,310	
Carrying Concealed Deadly Weapon Permits		<u>12,747</u>	132,946
Other:			
Add On Penalty	\$	84,604	
Advertising Fees		8,274	
Lease Reimbursement		22,422	
Miscellaneous		<u>26,520</u>	141,820
Interest Earned			642
Borrowed Money:			
Bank Note			<u>256,274</u>
Total Revenues		\$	1,945,869

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries		\$ 1,013,464
Employee Benefits-		
Employer's Share Social Security	\$ 79,949	
KACo Unemployment Fund	3,209	
Employer Paid Health Insurance	148,168	231,326
Contracted Services-		
Advertising	644	
Vehicle Maintenance and Repairs	3,592	4,236
Materials and Supplies-		
Office Materials and Supplies	17,856	
Uniforms	10,774	28,630
Auto Expense-		
Gasoline	65,841	
Maintenance and Repairs	76,636	142,477
Other Charges-		
Conventions and Travel	13,769	
Dues	1,143	
Postage	23,936	
Aviation Expense	7,550	
Bond	10,267	
Communications	41,705	
Carrying Concealed Deadly Weapon Permits	8,875	
Transport	62	
Repairs	2,473	
Prior Years' 941 Underpayment	16,274	
Miscellaneous	9,473	135,527
Capital Outlay-		
Vehicles		39,077
Debt Service:		
Bank Notes	256,274	
Interest	11,100	267,374
Total Expenditures		\$ 1,862,111

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
 GENE HOLLON, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Less: Disallowed Expenditures - Interest on Bank Loan	\$ 11,100
Total Allowable Expenditures	\$ 1,851,011
Net Receipts	\$ 94,858
Less: Statutory Maximum	77,414
Excess Fees	\$ 17,444
Less: Training Incentive Benefit	6,001
Excess Fees Due County for 2003	\$ 11,443
Payments to Fiscal Court - August 4, 2004	343
Balance Due Fiscal Court at Completion of Audit	\$ 11,100

The accompanying notes are an integral part of this financial statement.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Helicopter Account

The Sheriff opened a bank account during 1999 that he uses for helicopter expenses. The balance as of January 1, 2003 was \$163. Interest collected for the year was \$2. There were no expenditures. Ending balance as of December 31, 2003 was \$165.

Note 5. Undercover Drug and Alcohol Account

The Sheriff opened a Drug and Alcohol account in May 2003. This fund is used to fight drug and alcohol abuse. Receipts for the year were \$31,746. Expenditures were \$18,087. Ending balance as of December 31, 2003 was \$13,659.

LAUREL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 6. Drug Seizure Account

The Sheriff opened a Drug Seizure fund in May 2003. This fund contains funds forfeited for drug convictions. Receipts for the year were \$11,634. Expenditures were \$8,270. Ending balance as of December 31, 2003 was \$3,364.

Note 7. Leases

On January 31, 2003, the Laurel County Sheriff's Department entered into a 5-year leasing agreement with Farmers Bank & Capital Trust Co., with payments being made to Leasing One Corporation, for the purchase of five Sheriff's cruisers and equipment. Annual payments of \$28,526 are due by February 15 each year. The total remaining principal balance of the agreement was \$123,286 as of December 31, 2003.

Note 8. Subsequent Events

On June 24, 2004, the Laurel County Fiscal Court voted to waive the balance of Sheriff's excess fees due for the years of 1998, 2000, 2001, and 2002, thereby clearing all outstanding audit reports. The remaining balance of excess fees of \$32,026 due for those years was attributed to interest on bank loans and late charges on lease payments that had been disallowed on the audit reports. By waiving the unpaid excess fees, the cumulative deficit in the Sheriff's official bank account as of December 31, 2002, of \$32,026 was eliminated.

LAUREL COUNTY
GENE HOLLON, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2003

Assets

Cash in Bank	\$ 223
Deposits in Transit	13,307
Receivables	<u>104,473</u>
Total Assets	\$ 118,003

Liabilities

Paid Obligations:

Outstanding Checks	\$ 19,446
Liabilities Paid After December 31, 2003	<u>98,557</u>

Total Paid Obligations	\$ 118,003
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Unpaid Obligations

Laurel County Treasurer- 2003 Excess Fees	<u>11,100</u>
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Total Liabilities	\$ 129,103
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Total Fund Deficit as of December 31, 2003	<u><u>\$ (11,100)</u></u>
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COMMENTS AND RECOMMENDATIONS

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Not Have A Deficit In His Official Account

As of December 31, 2003, the Sheriff had a deficit of \$11,100 in his official account. This deficit resulted from disallowed interest on bank loans. We recommend the Sheriff eliminate this deficit by depositing personal funds in his official bank account for 2003 Fees.

Sheriff's Response: I understand this disallowed interest on bank loans and will be discussing this with Laurel Fiscal Court to reach a settlement.

The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees

The Sheriff did not present his annual settlement to the fiscal court and pay excess fees for 2003. According to KRS 134.310(5), the sheriff shall file an annual settlement with the fiscal court when he files his yearly tax settlement, with September 1 being the latest date to file. The annual settlement should include:

- a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

In addition, KRS 134.310(6) states, "at the time he files the statements required by subsection (5) of this section, the sheriff shall pay to the fiscal court any fees, commissions, and other income of his office, including income from investments, which exceed the sum of his maximum salary as permitted by the Constitution and other reasonable expenses, including compensation of deputies and assistants. The settlement for excess fees and commissions and other income shall be subject to correction by audit conducted pursuant to KRS 43.070 or 64.810." We recommend the Sheriff comply with KRS 134.310 in the future by presenting his annual settlement to the fiscal court and paying his excess fees to the County Treasurer. In addition, we recommend the Sheriff pay excess fees of \$11,100 as determined by this audit for 2003 to the County Treasurer.

Sheriff's Response: Will comply in future

LAUREL COUNTY
GENE HOLLON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response: None

PRIOR YEAR:

- The Sheriff Should Not Have A Deficit In His Official Fee Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees
- The Sheriff Office Lacks Adequate Segregation Of Duties

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Lawrence Kuhl, Laurel County Judge/Executive
Honorable Gene Hollon, Laurel County Sheriff
Members of the Laurel County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Laurel County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated June 21, 2006. This was a special report on the Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Laurel County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Not Have A Deficit In His Official Bank Account
- The Sheriff Should Present His Settlement To The Fiscal Court And Pay Excess Fees

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Laurel County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2006

